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NOMINATION OF JOHN A. BOHN, JR.

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF JOHN A. BOHN, JR., OF CALIFORNIA, TO BE VICE CHAIRMAN AND FIRST VICE PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES FOR THE TERM EXPIRING JANUARY 20, 1985

FEBRUARY 10, 1984

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NOMINATION OF JOHN A. BOHN, JR.

FRIDAY, FEBRUARY 10, 1984

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:30 a.m., in room SD-538, of the Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Heinz, and Proxmire.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order.

This morning the Committee on Banking, Housing, and Urban Affairs is conducting a hearing on the nomination of John Bohn, Jr., to be Vice Chairman and senior Vice President of the Export-Import Bank.

This Senator and several members of this committee have long been strong supporters of the Export-Import Bank. An adequately funded and aggressive Eximbank is the most effective means we have for promoting fairness in international export credits. Due in no small part to the support this committee and the Congress in general have given the Bank, major progress has been made in the long battle that has been fought to peg official export credits offered by the developed countries to market conditions, and to make these rates change automatically in line with changes in credit conditions. This is a major improvement.

In order to preserve this progress, as well as bring an end to the use of foreign aid moneys to bid down the cost of commercial export credits—the practice of so-called mixed credits—the Eximbank must be more aggressive than ever in providing American exporters with financing comparable to that given our foreign competitors by their governments. The recent revisions to the Bank's charter have made this imperative. This competitive financing is not just a good idea; it's the law. It is the intention of this Senator to see to it that the Bank comply with its unmistakable mandate from the Congress.

Without an aggressive Eximbank to protect American exports, we are left defenseless against foreign governments loading the dice in favor of their exporters. Senator Heinz and I have strongly criticized Bank policies under both the Carter and the Reagan administrations. I had fights for 2 or 3 years as a member of the Foreign Operations Subcommittee of the Appropriations Committee trying to convince the Carter administration that they were underfunding the Bank and, therefore, creating unemployment and lack

of sales for U.S. industries. We have some evidence of recent progress under the Reagan administration, but I want to make certain that future Bank policy does not constrict the use of Eximbank funds and undo what has been done by the Congress to build up the Bank. We need to have as full use as possible, given international demand, of Eximbank resources.

Mr. Bohn, I have looked over your credentials. You appear to be well qualified for this post, and you come highly recommended. We nevertheless will have some questions for you, but I welcome you before this committee.

Mr. Proxmire, do you have any opening comments?

OPENING REMARKS OF SENATOR PROXMIRE

Senator PROXMIRE. I would like to say in looking over Mr. Bohn's background I am tremendously impressed. This is one of the best nominees we have ever had from any administration. I say that after having served 27 years on this committee. I think it is a great coup to be able to get a man with this superb educational background and highly relevant, practical experience in export lending.

I also have some questions.

The CHAIRMAN. Thank you very much. Senator Wilson, your timing is perfect. You walked in——

Senator WILSON. I can tell that, Mr. Chairman.

The CHAIRMAN. We'd be happy to hear from you at this time.

STATEMENT OF PETE WILSON, U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator WILSON. I apologize to you, Mr. Chairman, and to Senator Proxmire and also Mr. Bohn for my tardiness. Your punctuality, I think, is to be commended. I don't want to kill the sale. I think I heard Senator Proxmire say that he had no further questions.

I will submit my introduction of the nominee for the record. I will only say that I have been privileged to know him for some years and I think he is, as I believe I heard Senator Proxmire say just now, eminently qualified, I would say superbly qualified for this position and it is one of great importance, one for which your committee and the Congress has given new importance, if we are to try to equalize the odds for American exporters. In particular, his service in the Pacific I think has given him valuable firsthand experience. In that market, our foreign trade deficit has reached a record almost $61 billion, a great deal of it having to do with Pacific trading partners, the Japanese. And having been in Tokyo for Wells Fargo, I think that he will bring the strongest possible credentials and a great deal of knowledge. I think he has very valuable assets. So, it is with great pleasure that personally as a friend, and objectively as a critic, I commend to you his nomination.

[The complete statement follows:]

PREPARED STATEMENT OF SENATOR PETE WILSON, FROM THE STATE OF CALIFORNIA

Mr. Chairman, I am very pleased to be here today to introduce to you Ambassador John A. Bohn, Jr., and to urge his confirmation as Vice Chairman of the Export-Import Bank.

I have known John for some years now, and, without reservation, I can say that he will serve on the Eximbank with great distinction, as he has done in all of the other important positions he has held—both in private industry and in the Government.

Mr. Chairman, I certainly do not need to emphasize to you, and to other members of this committee, the importance of the Eximbank in promoting U.S. trade. In the recently enacted extension of Eximbank, the Congress has made it abundantly clear that the United States will not stand idle while our domestic corporations lose sales to foreign companies on account of the latter's ability to offer better financing. Eximbank legislatively mandated, new aggressiveness will even up the odds when we are competing in international markets.

Mr. Chairman, our greatest export markets are in Asia—most specifically in the Pacific rim countries. This area of the world accounted for more than 30 percent of total U.S. trade in 1982, and, and on a parochial level, approximately 70 percent of California's total trade that year.

A review of John Bohn's credentials quickly shows the breadth of his background and most particularly, evidences a strong track record which well equips him to forcefully pursue opportunities in the Pacific rim. His service for Wells Fargo Bank in Tokyo gave him firsthand experience dealing in a market which is the one we most have to expand in if we are ever to reduce our world trade deficits—which, as you know, reached a record $60.6 billion in 1983.

Mr. Chairman, again, I want to urge the committee to recommend to the Senate John Bohn's confirmation to the Eximbank. I am sure that his work there will well serve the interests of this committee and the needs of American industry.

Thank you.

The CHAIRMAN. Thank you very much. There's no need to apologize for being late; on "Senate standard time" you were way ahead. You were way, way early.

I was telling Senator Proxmire, he and I were just over testifying in behalf of the Banking Committee's budget before the Rules Committee, and I was getting nervous. He's locked himself in I don't know how many years of perfect voting on the floor and I made the mistake of announcing at the very first hearing I conducted as chairman, as long as I was chairman the committee would never start late. So I was jogging from the Russell Building. I only had 1½ minutes to spare, but I made it once again.

We do appreciate your coming and I'm going to say publicly what I have told you privately many times. I want to start getting you tied in to being a member of this committee. Senator Wilson is one of his choices, but unfortunately by the time we got to him last year, the committee was filled. I hope he will persist in trying to get on the committee after the 1984 elections. We would like to have you as a member of this committee.

Senator WILSON. Thank you very much, Mr. Chairman. I am flattered by your comments.

The CHAIRMAN. Before you testify, could I have you sworn?

[Witness sworn.]

TESTIMONY OF JOHN A. BOHN, JR.

The CHAIRMAN. Do you have an opening statement you wish to make?

Mr. BOHN. I have no opening statement, Mr. Chairman. I am certainly prepared to answer any questions.

The CHAIRMAN. Will you make every effort in your service with the Export-Import Bank, not only to avoid conflict of interest but to avoid even the appearance of conflict of interest?

Mr. BOHN. Yes, sir.

The CHAIRMAN. And do you agree to appear and testify before this committee and other duly constituted committees of Congress when requested to do so?

Mr. BOHN. I certainly do.

The CHAIRMAN. Now that official export credits are tied closely to market rates, with automatic adjustments, we are seeing an increase in the use of mixed credits as a means of predatory financing. What can we do, or what can the Eximbank do, in particular, to bring an end to the use of mixed credits with predatory export financing?

Mr. BOHN. Well, in the perspective of the field I certainly concur with that observation. I think a lot of progress has been made by virtue of the recent enactments. It will require continual vigilance as far as Eximbank and other agencies as far as negotiating the ultimate objective, which will be to eliminate this kind of financing altogether. Until that time, I think it is important that we remain strong, and the sooner the mechanics are put together with respect to the recent legislation, the sooner I think that will send a very important signal to our trading partners that we are serious about bringing an end to this. Until the time we do bring an end to it, we want to be vigorous competitors.

The CHAIRMAN. Would you explain to the committee your understanding of what your responsibilities as director of the Eximbank would be with regard to establishing fully competitive rates and terms for Eximbank loans?

Mr. BOHN. I think, again, there are two aspects of it. The first aspect of it is to do whatever I can, as a director, to eliminate the subsidized rates that we now see in our trading partners or competitors.

I think, again, while we work vigorously on that, it is very important that we in fact telegraph to our trading partners that we are serious about beating the competition. From the perspective of the field, one talks to those who are out selling equipment, those who are involved in the day-to-day combat, if you will, in this international trade business. I think one of the things that they are waiting to see is the implementation and the clear signal by Eximbank that we intend to be fully competitive. And when we say fully competitive we mean fully competitive.

The CHAIRMAN. What is your understanding of the congressional mandate of the Bank? I mentioned that in my opening remarks. We have had debates within this committee; a majority of the committee feels that the mandate is very clear, that it says competitiveness first, not that we want the Bank to be a loser. During most of the years of its history, it has been a profitmaker, and only recently has it had a deficit. Those of us who feel very strongly about this issue, feel that it is more important to be competitive, and those losses are far more than offset with the taxes generated from U.S. sales.

Boeing sells airplanes rather than the air bus. Even if there is a deficit with Eximbank, that has been far offset by the jobs created and all of the tax revenues that go with those kinds of sales.

There is a minority of the committee who feels that it should always make a profit, or at least break even. What is your feeling on that congressional mandate? Is it necessary to mandate competi-

tiveness first? Or breaking even? Or remaining a profitmaking organization?

Mr. BOHN. Well, I come down clearly on the side of competitiveness. I think the clarifications in recent legislation are welcome and most useful.

I say that as a banker, with a full recognition, I think, of the importance of not running a lot of red ink over a long period of time. It simply is impossible to be credible, internationally, I think, if we continue to run red ink over a long period of time. But I think the clear mandate is first to be competitive. And if that requires, for short periods of time, that the Bank is run at what essentially is an accounting deficit, so be it.

The CHAIRMAN. You are coming to the Bank following experience with the Asian Development Bank. Developing countries have in the past been the largest area of growth for export. How long will they continue to be so and what kind of market do the U.S. exporters feel this is now in developing countries?

Mr. BOHN. I think one has to divide the answer really into two parts. The market today is probably fairly limited, because a number of the developing countries, particularly in Asia, are just beginning to come out of the recession which has been induced largely by the recession in the developed world. I think they are on the mend, and my sense of the future is that they will provide a very important, if not the most important, part of the market for U.S. goods and services.

Asia particularly, I think, holds out enormous potential for American business, both in the case of exports and goods and services.

Latin America, perhaps, will take some time.

As this committee is clearly well aware, they are going through some real adjustments which will have some degree of impact on their ability to expand into new areas. They are going through a consolidation period. But, if I had to generalize, I would think the developing world will provide probably the growth area for U.S. goods and services exports over the next decade or two.

The CHAIRMAN. Drawing upon your involvement with Government, to what extent do you see the industrial countries using mixed credits, or tied aid, to promote their exports to developing countries?

Mr. BOHN. Well, in this context I can really only speak as far as Asia is concerned. But from talking to a number of American businessmen who have come by my office at the Asian Development Bank, I think the trend is certainly not decreasing. We are seeing additional players with additional vigor in a number of the competitive areas out in Asia.

The mixed credit, or the Government-grant type of credit, is becoming more and more a factor in who wins the bids and who doesn't get the bids, certainly in international bilateral procurement as well as in multilateral procurement. It is very difficult, in many cases, to track and to be sure of those cases where there is in fact Government subsidy from other countries. But if one accepts as true only 50 percent of the stories that one hears from the practitioners in the field, certainly the pressures are increasing rather than decreasing.

The CHAIRMAN. Senator Proxmire.

Senator PROXMIRE. Yes. Mr. Bohn, I wonder if you happened to see an article in the Washington Post about a day or two ago written by John Macy, the former head of the Civil Service Commission, saying we ought to be aware when we elect a President of the United States in 1984 we are electing 3,000 people in top policy positions. That is, the President is not only President but he has to appoint people and his appointees are extremely important.

The point made by Mr. Macy was that we are not getting the kind of people appointed to the top jobs that we should by a long shot, for many reasons. The reason I bring this up is I wanted to know why you, with your remarkable background and obvious ability to make many times more money in the private sector, happened to be willing to come into the Government?

I see you have been in the Treasury, State, and Treasury Department for the last 2 years; is that right?

Mr. BOHN. Yes, that's correct.

Senator PROXMIRE. How did you happen to be willing to sacrifice the beautiful climate of California and come to dismal Washington and move into a position at which you are subordinate to others and at which you don't get rewarded very high?

Mr. BOHN. I think from the personal point of view, Senator, the answer to that is I think one gets a better sense of what makes this country operate. One has the opportunity to serve not only just in the private sector but also for a time in Government. I have learned, I think, in the last 2 or 3 years, probably more about civics than I ever learned in college and high school—certainly more about economics than I ever learned in college—and certainly more about the way things operate on a national basis than I ever would have thought possible.

I think this experience has been really very rewarding and I don't regret for 1 minute having done it.

Senator PROXMIRE. That's a good response and it is good to hear.

Mr. Bohn, in March 1983, the Assistant Secretary of Treasury for International Affairs told us that the administration's export credit policy is based on three concepts.

First, opposition to export credit subsidies as they transfer resources from domestic taxpayers to foreign importers and distort trade and its opposition to export credit subsidies.

Second, reduction and eventual elimination of such export subsidies through international agreements.

Third, targeted subsidies to our exporters only where it is necessary to meet competition that is being aided by subsidies from foreign governments.

Now, I think these three principles make sense and I don't believe changes made to the Bank's charter in November change them in any way.

Do you agree that these are the concepts that should guide the director of our Export-Import Bank?

Mr. BOHN. Yes, I do.

Senator PROXMIRE. I'm not sure that that's consistent with your response to Senator Garn. Perhaps it is. There has been a little bit of difference, perhaps, between Senator Garn and Senator Heinz on the one hand, and this Senator. I just felt we ought to be more ag-

gressive than we have been in the past to try and persuade other countries to cease this war on who can subsidize exports most greatly, because all taxpayers in all countries suffer from it.

Mr. BOHN. Well, I agree with that. I think perhaps if there's an apparent inconsistency between that and my previous answer, it probably relates to a slightly different appraisal as to the methodology by which that's best achieved. Having sat at the negotiating table with a number of our trade partners in the past, my sense is that nothing succeeds like determination backed by substance. And I think those objectives are the ones that we are all reaching for. But I think in order to be taken seriously one has to put something behind it and manifest an intention not only to negotiate aggressively but for the elimination of these distortions caused by subsidies.

In order to achieve that goal, I think it is necessary to be prepared to compete head on, while one is negotiating for the elimination of the subsidies. That's the only tactic that I have ever seen work in this particular area.

Senator PROXMIRE. Well, I wonder if we can't somehow persuade the private sector to be a little more aggressive in this. I know that adequate and competitive credit is indispensable to our exporters if they are to promote export growth, but as you know, the private sector has traditionally provided most of the financing needed by our exporters. Some claim that governments must play a larger role in financing exporters. I question that.

Can you tell me why the private sector cannot continue to be the principal financier for our exporters?

Mr. BOHN. I think the private sector can and should. But we find ourselves now at a fairly peculiar time. You have massive debt rescheduling and tremendous sensitivity as far as the commercial banking system is concerned to increasing its overseas debt. You have uncertainty as far as our exporters are concerned with respect to understanding not only the international financial marketplace, but the competitive environment within which they now operate.

Hopefully, this is a short-term phenomenon, but it is a real phenomenon nonetheless.

In the case of a small businessman, and the medium-size businessman, it is typically not cost effective to go through the analysis necessary to make a sound credit decision. He has to rely on his bank to do that. So, the area in which we think we can assist the private sector is really through the banking system; in effect, helping them make those risk decisions, helping them deal with this uncertain period.

I think it is everybody's hope that the private sector, certainly the commercial banks, at least, will play a more and more aggressive role in this as the situation eases. But right now I think we are in a situation where that's very difficult to expect them to do.

Senator PROXMIRE. You touched on my next point, but I want to pursue it a little further. You are right. We are in an unusual kind of a situation, with these colossally high deficits, and our high interest rates, and our enormous, enormous trade deficit, higher than it's ever been before and expected to be maybe as high as $100 billion next year.

And what Chairman Volcker warned us about, too, is the fact that we are now becoming a net importer of capital, which means that our current account is deteriorating in a whale of a hurry. And that's something that is entirely different than we have had before.

Do you see any changed role for the Export-Import Bank, in view of this unusual situation?

Mr. BOHN. I don't know that I can really give you a definitive answer to that at this time, Senator. My sense is that the role of the Eximbank, vigorously pursued, can make a substantial contribution, at least on the trade side. The concern that one has is with the distribution process. That is to say, the Export-Import Bank, by itself, can really only work with the banking sector.

Certainly there are other factors beside the Eximbank. The high interest rate—the money importation, I think, has been a big factor, not only in terms of interest rates but in terms of the high foreign exchange position the dollar occupies.

The Eximbank can make some moderate contribution, I think, to partially offset these extraordinary circumstances. But, really, these are factors that are more a function of the international financial situation at this point than anything else. And it is unlikely, in my judgment, that any new activity by the Eximbank can have a major impact by itself.

Senator PROXMIRE. That sure complicates your problem, doesn't it?

Mr. BOHN. Yes, it does.

Senator PROXMIRE. Two types of export subsidies used by governments today are the interest rate subsidies and the mixed credit subsidies. The latter, as you know, involve Government financing packages for exports that include a foreign aid component and therefore carry softer credit terms than normally allowed.

I understand that the Treasury Department and the Eximbank take the lead in negotitations with the OECD, to eliminate export subsidies.

How do you feel about mixed credit subsidies?

Mr. BOHN. Well, I think it is in everybody's interest to eliminate the mixed credit subsidy altogether. I have been unable to determine any method whereby either from the point of view of allocation of resources, or on a macroeconomic basis, or in terms of the impact on the taxpayers, the subsidy element makes sense, from a worldwide point of view. The difficulty is, of course, that we are in a competitive environment.

It is certainly in our interest to vigorously do our best to eliminate these subsidies, but until then I think we have to recognize that we are going to have to compete, and compete vigorously.

Senator PROXMIRE. Will you take an active role and interest in the OECD negotiations to eliminate the mixed credit subsidies?

Mr. BOHN. I hope to, yes.

Senator PROXMIRE. Mr. Bohn, I have always been concerned by the fact that so much of the Bank's resources have been tied up with assisting a few large corporations—it has been called the Boeing International Special Bank—and have always pushed it to be more helpful to small businesses.

I was particularly pleased that Congress, in its recent amendments to the Eximbank Charter, made it national policy to encourage the participation of small business in international commerce. It specifically set aside 6 percent of the Bank's 1984 authority for aid to small business. This will increase to 10 percent in 1986.

Do you agree with that policy objective?

Mr. BOHN. Yes, indeed I do. There are a couple things. The Bank, as I understand it, has already begun to respond to that mandate. There are some programs underway now. I know that there are some marketing programs in operation and under consideration. The difficulty with the small business person—and I used to finance these people when I worked for Wells Fargo, both in the trade finance area and the export finance area—is that in large part the commercial banking sector is reluctant to deal with the small businessman. So, one of the tasks I think Eximbank has, in the mandate to which you refer, is to try to develop some programs and policies whereby we can assist and utilize the commercial banks in providing the needed credit financing for their own small business people.

It is unlikely that there are enough people in the Export-Import Bank to meet the real needs of each of the small business people. But I think a creative program working for and with intermediaries, working with the commercial banks, can make great strides. I think this is the avenue that we need to get into on a cost-effective basis. I am sympathetic to the small businessman. For example, in my current position I see people coming out on trade missions, and recognize that the person who is typically exporting a product of a half a million dollars, perhaps, does that one or two times. It is not cost effective, by itself, for him to mount a major export program. That's where I think we can come in, working with the commercial banking system.

Senator PROXMIRE. Thank you. Thank you, Mr. Chairman. My time is up.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Mr. Chairman, I have an opening statement and I ask unanimous consent that the entire statement be part of the record.

The CHAIRMAN. Without objection, that will be included.

[The complete statement follows:]

PREPARED STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, thank you for holding this nomination hearing today, which gives us the opportunity to discuss the Export-Import Bank at the same time.

As you know, this committee has alway firmly supported the Bank. We have taken issue from time to time with the policies and actions of the Bank, but never with the underlying need to support American exports in a manner which fully meets the foreign government-backed competition.

With the support of this committee, great progress has been made with regard to establishing rules limiting competition in officially subsidized export credit facilities. The changes in the OECD arrangement on interest rates, automatically pegging them to

market conditions, can be seen as a success and we are pleased to note this accomplishment.

The next step is to apply the same vigorous effort to resolving the remaining problems, most particularly the problem of mixed credits. It seems to me, however, that our efforts appear somewhat half-hearted when large portions of the Bank's resources are left untapped, as they were last year. This year the situation is even worse. Of the $3.865 billion ceiling on Eximbank direct loans, the Board has so far taken action on only $483.7 million, approximately one-eighth of the direct loan resources available. There has been increased action over the past few weeks, and this is good news. But the overall rate of Eximbank activity is still too low, and if this is due to Bank policies rather than market conditions, then this must be rectified promptly.

Moreover, with lower commercial interest rates we should be seeing greater activity in Eximbank's loan guarantee and insurance programs. But to date, the Bank has taken action on only $2 billion out of its $10 billion limit for guarantees and insurance. I would hope to see even greater levels of activity in this area as well.

As we have succeeded in controlling competition over official direct loan programs, we are witnessing, as anticipated, an increasing resort to mixed credits by our competitors. Despite the provisions passed last year, directing the establishing of a mixed credit facility, our exporters continue to remain defenseless against this form of competition, and Mr. Bohn probably understands very well just how crucial concessionary financing can be to a developing country's decisions in awarding contracts. Unfortunately, our Agency for International Development has been indicating an unwillingness to participate in developing a mixed credit program. Last fall, however, we were assured again and again that Eximbank has a capability to develop a program on its own to counter foreign mixed credits. With the resources that the Bank apparently has available, I would hope that they would develop such a facility and thus meet their statutory obligation to provide, in all of their programs, fully competitive financing for American exporters.

Now is the time for aggressive support of American exports. The trade sector of our economy is under assault; even our traditionally most competitive industries are suffering in their export markets. The forecast $110 billion merchandise trade deficit for 1984 signals severe problems for American exporters and for the economy overall. The Eximbank is not a panacea but it must be certain to exploit all its available tools and resources to reduce this deficit. It is my hope that by doing so the Bank will surpass the $2.5 billion level of direct credits forecast for the Bank in the President's fiscal year 1985 budget.

Mr. Chairman, I concur in the evaluation of Mr. Bohn's credentials, that he appears to be an excellent nominee. I have some questions for him on some specific aspects of his future job, and I look forward to working with him in the days ahead on these important issues that I have discussed, as well as on others that may arise.

Senator HEINZ. There are three concerns I would like to address to the witness. You and Senator Proxmire covered the trend to mixed credit extremely well. Second, the competitive status of the

Bank, whether our financing is strong enough or competitive enough. And third, the extent to which the Bank can assist us in addressing the issue of overcapacity, vast overcapacity worldwide in specific industries.

On the second of those questions, I would observe that even before the fact of our now facing a $110 billion trade merchandise deficit for the coming year, your predecessor, Mr. Bohn, the Vice Chairman of the Bank, Charlie Lord, stated for the record that if Congress votes higher funding for the Bank than that which OMB recommended:

> The Eximbank must follow the mandate of Congress and make every effort to use the funds that Congress has provided for the furtherance of U.S. export sales.

The Bank, frankly, hasn't done very well, lately, in meeting those targets set by Congress. In terms of the direct credits it has used $483 million of its $3.865 billion. In terms of insurance it has used $2 billion of its $10 billion.

So, first of all, do you agree with Mr. Lord's statement, and second, irrespective of whether you do or don't agree with the statement, why do you feel the Bank has been doing so little business lately? And what do you intend to do about it?

Mr. BOHN. Well, I certainly, I think, agree with Mr. Lord's statement. Once the decision has been arrived at through the legislative and administrative process, when that is expressed in legislation, that I think becomes our mandate and that's what we are supposed to do.

Probably one important reason that the Bank has not lived up, if you like, to these goals simply is the fact of change in demand.

During the last couple of years, at least, business has been significantly down. I don't know why. I'm guessing now, but I would think that most indicators of exports would also be down in other countries.

I think that in our situation what needs to be done has largely been done. I think the clarification of the primary role, if you like, of the Export-Import Bank has been very useful.

During my time, back when I was running the export group for Wells Fargo, there continued to be significant uncertainty in the programs. They appeared and disappeared, appeared and disappeared, and got more emphasis or less emphasis. As a result of the rationalization of the programs for Eximbank, I think you will probably see a different and a much fuller series of programs, perhaps, than you have seen before.

Senator HEINZ. The Bank currently imposes a 2-percent upfront fee for direct loan programs. We are virtually alone in funding—excuse me, we are virtually alone in doing so among the OECD countries. How is that compatible with the Bank's obligation to provide fully competitive financing in all its programs?

Mr. BOHN. Well, the direct answer to that, I guess, is I don't know. I can speculate, however, that when one takes one part of the cost package of credit, one runs the risk of concentrating on one part of the package and not looking at the overall package. My guess is that there are other fees and charges in the other programs, which come, if not close, at least partly compensate for that.

I think one has to look at the overall credit cost, rather than concentrating just on the fees. This is something we have to look at, but we have to look at it also in the context of cost/benefit and initial reward.

I think looking at it just from the fee view, from our perspective, probably gives the wrong signals. Again, that's speculation, but my sense is that that's probably how we need to look at it, that is, in terms of the overall cost of credit to the borrower.

Senator HEINZ. The question was not so much the overall cost of credit to the borrower. The real question is the competitiveness. If we are offering an 11.5-percent rate and somebody else is offering an 11.5 rate, then we are loaning the 2-percent fee—I guess the simplest question is: How can we be competitive?

Mr. BOHN. I would suggest term, for example, although on certain positions our term is 20 years and their term is 10 years. For a number of the borrowers, particularly the sovereign borrowers, they are much more concerned about budget impact on an annual basis than they are about overall interest rates as such. So the term is also important in terms of dealing with a real competitive analysis.

Senator HEINZ. I think I like the first part of your answer best, which is "I don't know."

There is a very significant debate going on these days over the advisability of funding projects for the development of commodities in oversupply, such as copper and steel.

The CHAIRMAN. Especially copper.

Senator HEINZ. Especially steel. [Laughter.]

The CHAIRMAN. I knew you'd say that. I just wanted to get my word in.

Senator HEINZ. There would appear to be vast overcapacity of those production facilities. And the Bank has found itself in the middle of that debate; most recently regarding steel operations in Korea and copper in Mexico and Chile, among others. What are your views on this issue, John?

Mr. BOHN. The Bank has a procedure where they try to evaluate the competitive impact of anything like that it does. Certainly there is a mandate, and a foreign policy commitment, to try to make the evaluation and to determine the extent to which the sale or the development would take place with or without Eximbank financing. But there's an elaborate procedure whereby they try to weigh the impact on the domestic industries, of the financing that they do.

One can have a difference of opinion on any given case. But I think all that one can ask is that the Eximbank Board weigh, with great seriousness, these questions of domestic impact.

It is certainly not the case, to take steel as an example, where creation of additional steel capacity in the world seems to make sense at this point.

I have not looked into it far enough to be able to tell you whether 10 years from now that will still be the case or not. But, certainly those kinds of decisions are matters of judgment, and certainly it is incumbent on the Board to take these factors into consideration in any kind of a credit decision.

Senator HEINZ. Let's make a few hypothetical assumptions: That, indeed the Eximbank, as I gather it is doing, in spite of objection, from the Commerce Department, is going to finance part of the South Korean steel mill. And there is going to be substantial world overcapacity, even 10 years from now—that's the assumption we are making for the purpose of this argument.

And, if we are asking you to be competitive, it seems to me you are in a rather tougher spot. Because, if you decide the steel mill is going to be built, whether or not the United States participates in financing the engineering for the steel mill, by not financing the engineering for the steel mill, or some of the equipment purchases or whatever they may be, the only thing that's going to happen is that our engineers or exporters aren't going to participate in the building of something that's going to be built anyway.

On the other hand, if you do participate in it you are going to be criticized for having financed, in the case of engineering, the transfer of our technology, and in the case of the equipment, for playing the role in building overcapacity. And it seems to me that as long as you look at the problem as one of whether or not you should make a loan that you really have missed the point.

I guess, as we just did in Lebanon, I would reorient my question to ask you to state how you feel the Eximbank, or the Board of the Eximbank, not when they are looking at loans but when they are looking at the big picture, can help bring about some other way of dealing with that?

For example, should the executive branch attempt to negotiate an international agreement that would end, from developing countries, official export credit for production capacity for products that are clearly going to be in an overcapacity situation for some time?

Mr. BOHN. Well, I think the only hope that one has to meet the issue that you raise, Senator, is through multilateral negotiations. I think if one is put in a situation where if we don't support the export somebody else will, then that makes it a much tougher question.

If we could get general agreement on certain sectors, among the principal suppliers both of technology and equipment, I think we'd go a long way to meeting the problem that you have raised.

Senator HEINZ. Do you think we should do that?

Mr. BOHN. I think we should try. I would be less than honest, however, if I thought there was much short-term possibility of that, for somewhat the same reasons that I am concerned that we still have a long way to go in terms of negotiating elimination of mixed credits.

Senator HEINZ. Well, Mr. Chairman, I want to commend Mr. Bohn. That's a very thoughtful answer. I think he's one of the best appointments that I have seen to the Eximbank, and that reaches back over nearly 8 years now, that I have seen sent to this committee. As a matter of fact, he, in some instances, is a vast improvement on some of the people we have seen come before this committee. But, even if we hadn't seen those, he would still be excellent.

I have—I don't want to damn you with faint praise. You deserve better, Mr. Bohn. I have no further questions. I must leave for another appointment, but I urge the committee to report his nomination favorably.

The CHAIRMAN. I made the comment to Senator Proxmire, as you were sitting here, sort of privately, that you were very unusual. You had background and experience for the position you are being nominated for, and we often don't see that.

We wonder where people come from and why they are being appointed to particular positions, but with your background there is no doubt why you are being appointed. You do have an excellent background and you are an excellent nominee for this position.

Senator HEINZ. You know, Mr. Chairman, if I may interrupt, I suppose that just proves the point that we Members of Congress are no different from appointees. Some of my constituents often ask me the same question. You know, "What are you doing up there, Senator? Why did we appoint you?" Of course it would never happen in Utah or Wisconsin——

The CHAIRMAN. A lot of them ask me that same question for other matters. But interestingly enough, I was frankly very surprised, 9 years ago, to be placed on the Senate Banking Committee because my degree in college was in banking and finance. So, at least in this one area—they must not have known that, in the "Committee on Committees." [Laughter.]

Senator HEINZ. Clearly a fortuitous event.

The CHAIRMAN. Thank you.

Senator PROXMIRE. Chairman Draper has done an excellent job with working with other countries to eliminate the use of subsidies on the world export scene and to return to the norm of market rate financing.

One area of the Bank's operations that concerns me, however, is the financing by direct credits and the financial guarantees of purchases by foreign-owned government entities. These entities then use the subsidies from our taxpayers to enable them to take away market shares from our private companies. One recent example is the proposed financing of airplane purchases by Singapore International Airlines. That airline will then be strengthened to compete with Pan Am.

Do you think that's a sound public policy?

Mr. BOHN. Well, that's an extremely difficult issue. I'm not really prepared to go into details of it because, frankly, I haven't really looked into it.

In general terms, again, one has to weigh the interests of our own domestic companies, in terms of the user—in this case it would be Pan Am—against the interests of those selling the equipment, which I guess would be Boeing Aircraft.

It is a very difficult balance. The assumption that's often made is that by going to Eximbank, Singapore Airlines automatically gets a better rate and better terms than Pan Am gets. I'd have to look into that.

One of the suspicions I have is that there's an important function of the rate—or cost that Pan Am would get in a situation like that, that's a function of the company and the management and all the rest. It is not intuitively clear to me that a domestic company would always get, or would always be subject to, a higher rate than would be the case in a situation supported by Eximbank.

Senator PROXMIRE. Will you look into this situation and give us a response in writing?

Mr. BOHN. I'll be happy to, Senator.

Senator PROXMIRE. Section 1911 of the Eximbank Act requires the Bank to implement regulations and procedures to insure that full consideration is given to the adverse impact that any loan or financial guarantee may have on industries or employment in the United States.

I understand that the Bank may not yet have such regulations in place because it didn't have the money to commission the report by the ITC required by that section. In November we provided the Bank with the appropriation authority to have that ITC study carried out. Will you, if confirmed, see to it that the ITC study is completed and evaluated by the Bank and that the required regulations are put into place as soon as possible?

Mr. BOHN. Yes, sir.

Senator PROXMIRE. Will you report to us as to when you expect this to be done?

Mr. BOHN. Yes, sir.

Senator PROXMIRE. The problem is that decisions are being made without the details and information that the ITC study would provide.

Mr. BOHN. I have seen, Senator, some—I don't know whether it is correspondence or outlines—in the Bank, dealing with this subject. But the extent to which they have been institutionalized, I honestly can't comment on at this point. I know it is a matter of consideration. I know it is being discussed.

Senator PROXMIRE. Now, I understand that the Bank Board, in making its loan or guarantee decisions, has before it documents evaluating the loans or guarantees prepared by the Bank staff. I further understand that in situations such as the Singapore Airlines loan, opposed by Pan Am, the document before the Board would contain cost/benefit analyses.

As you know, this committee has an oversight role over the Bank's operations.

Would you have any problem with furnishing committee staff with copies of all documents used by the Board in making its individual loan or guarantee decisions?

Mr. BOHN. I wouldn't have any problem, Senator.

[The following information was subsequently supplied for the record:]

EXPORT-IMPORT BANK OF THE UNITED STATES

February 1984

Question: Would the availability of Eximbank's support (credit or financial guarantee, depending on the type of aircraft purchased) improve the terms of financing available to a PanAM/TWA?

Answer: As the following table indicates, of the 16 times during 1980-1982 (1983 data will not be available until April or May) that PanAm/TWA borrowed fixed-rate funds in a public market, only twice would Eximbank support (using PEFCO as a rate proxy for funding under an Eximbank financial guarantee) have provided a lower rate. Moreover, in one of those two instances of lower rate from Eximbank, the term from Eximbank would have been significantly shorter (10 years versus 15 years).

There are several reasons for this situation, the most important ones being:

(1) Fifteen of the 16 borrowings related to old-generation aircraft, for which Eximbank would only be providing financial guarantee support. The combined effect of PEFCO's pricing structure plus Eximbank's guarantee fee typically yields a rate which is only attractive to relatively low creditworthy borrowers.

(2) The instances where the PanAm/TWA costs are nearly half the Eximbank-supported cost represent U.S. airline borrowings from the British official export credit agency for Rolls Royce engines, etc.

(3) The ability to use Equipment Trust Certificates gives PanAm/TWA a capacity to access credit markets with some degree of separation from the corporate creditworthiness issue. Hence, their cost of funds on aircraft purchases could be significantly better than what they would have to pay for general corporate borrowings. This aspect may explain the other instances of Eximbank lower rate--i.e., the 18 percent paid by PanAm on February 2, 1982, may not relate to aircraft purchases.

While the following data and above explanation do not establish that Eximbank support would have been worthless to PanAm/TWA, it does suggest that Eximbank's availability to foreign airlines--but not PanAm/TWA--may not be any appreciable disadvantage to PanAm/TWA.

Senator PROXMIRE. Last August, the Bank announced the creation of a $1.5 billion loan guarantee facility for Brazil and a $500 million facility for Mexico. Under these general loan facilities the Governments of Brazil and Mexico made the decisions as to which of our exporters got the loan guarantees on their individual exports to those countries.

Aside from the legalities of the program, I don't think in the future authorizing such facilities is sound public policy.

What are your views of such general loan facilities?

Mr. BOHN. Well, my recollection of those discussions, Senator, was that it was part of an overall restructuring package, necessitated by the need to reschedule, both in the case of Mexico and the case of Brazil.

One can be sympathetic to the need in these two specific countries which are so important and have some dramatic impact, both on our financial system and on our trade.

As a matter of general policy, I, at least, don't see the role of the Export-Import Bank as one of dealing in restructuring of international debt in any kind of an IMF sense. The IMF is designed to do that, and then to be supplemented by other kinds of agencies.

That's really about all I can say on that, in terms of institutions.

Senator PROXMIRE. Would you support the authorization of these loan facilities by the Bank, or oppose them?

Mr. BOHN. Would I support the authorization of the two to which you referred?

Senator PROXMIRE. Yes, sir.

Mr. BOHN. Well, I understand, Senator, that these were vigorously supported by the administration. I think I would, therefore, support them.

Senator PROXMIRE. Do you believe the Bank should be self-sustaining or should it get involved in being dependent on annual Government appropriations to carry out its mission?

Mr. BOHN. I think the goal is certainly to be self-sustaining. But I think the key element to that question is really over what period of time.

One can imagine the situation where for a number of years it would run in the red because of the need to be competitive. I think that overall the long-term goal should be one of being self-sustaining. But one has to then hope that one's analysis of interest rate trends and cost of funds is more accurate than most of them, I'm afraid, are.

In general terms I think the competitive nature of the Bank is a critical issue. But every effort should be made to be self-sustaining, partly because it is just a sound way to run an operation, and partly, too, because it adds increased credibility to our negotiations with our competitors to eliminate the subsidies altogether.

Senator PROXMIRE. Recognizing all the problems involved here, and they are considerable, do you think that the Bank can in fact be self-sustaining, say over the next 5 years?

Mr. BOHN. I asked staff to provide some information on that question, and the projections that I got were that it would probably not be self-sustaining under most reasonable assumptions probably until 1987—more probably about 1988 or 1989. But, again, all of this depends on the projection of interest rates, and therefore costs

of funds. I have not ever been very much willing to rely on interest rate projections out more than 2 or 3 years. But, at least based on the best information that we have, and I gather administration interest rate projections, we are talking about 1988.

Senator PROXMIRE. Well, administration interest rate projections are very, very, very optimistic. As I understand it, they are predicting that the T bill rate will go from 9 down to 5 percent and the mortgage rate will go down from about 12½ percent, to about 7 percent.

Are you relying on that kind of optimism, saying the Bank might be self-sustaining by 1987?

Mr. BOHN. We did some best case/worse case/most probable case scenarios. And the most probable case for us—and I would have to ask staff what projections they used—the most probable case for us came out to be self-sustaining about 1990.

Senator PROXMIRE. The most probable case?

Mr. BOHN. Most probable case, about 1989 or 1990.

Senator PROXMIRE. Would you provide the details for the record? I'd be very much interested in what the assumptions were to achieve that. But there was at least a substantial risk, or was there, that it might not be self-sustaining until later?

Mr. BOHN. Oh, yes.

Senator PROXMIRE. Very good. Well, give us, if you can, the details of that.

Thank you, Mr. Chairman.

[The following information was subsequently supplied for the record:]

EXPORT-IMPORT BANK OF THE UNITED STATES

Net Income Projection
($ Millions)

Assumptions:	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
Interest Rate:									
On New Loans	11.0%	9.9%	9.3%	8.1%	6.9%	6.1%	6.0%	6.0%	6.0%
On New Borrowings	10.7%	9.4%	8.8%	7.6%	6.4%	5.6%	5.5%	5.5%	5.5%
Net Income	$ -266	$ -314	$ -291	$ -228	$ -144	$ - 67	$ - 1	$ 94	$ 198
Capital & Reserve at Year End	$2,526	$2,212	$1,922	$1,694	$1,550	$1,483	$1,482	$1,575	$1,773
% of FY 83 Capital and Reserve	90%	79%	69%	61%	56%	53%	53%	56%	64%

The CHAIRMAN. Thank you very much, Mr. Proxmire.

Senator PROXMIRE. Oh, I would like to say once again how pleased and delighted I am with this nominee. I think he's extraordinarily well qualified. I think his responses have shown his high intelligence. I see he was a Phi Beta Kappa at Stanford, and the only black mark on your superb educational record is that you went to law school. [Laughter.]

It's a shame, but nobody is perfect.

Mr. BOHN. Thank you, Senator.

The CHAIRMAN. Actually, as I sat here and listened to these very intelligent answers, Senator, he's undoubtedly overqualified for the position. I don't think we have ever had an Eximbank nominee before us who has answered the questions as forthrightly and intelligently as you have. So, I anticipate no problem with your nomination whatsoever, and we thank you for coming before us today.

Mr. BOHN. Thank you, Mr. Chairman.

The CHAIRMAN. The committee is adjourned.

[Whereupon, at 11:20 a.m., the hearing was adjourned.]

[Biographical sketch of nominee follows:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Bohn, Jr. (LAST) John (FIRST) Augustus (OTHER)

Position to which nominated: Vice Chairman, Exim Bank

Date of nomination: November 18, 1983

Date of birth: 31 Oct., 1937 (DAY) (MONTH) (YEAR)

Place of birth: Oakland, California

Marital status: Married

Full name of spouse: Barbara Neukom Bohn

Name and ages of children: Linnea G. Bohn 18; Julia Cameron Bohn 4; John N. Bohn 15; Maya F. Bohn 11

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Stanford University	9/55 - 6/59	AB	6/59
London School of Economics	9/59 - 6/60	-	-
Harvard Law School	9/60 - 6/63	J.D.	6/63

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Honors at Entrance; Graduation cum Laude; Phi Beta Kappa;

National Political Science Honorary Society;

President, Associated Students, Stanford University;

Fulbright Scholar, London School of Economics

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
State Bar of California	-	1964 to date
American Bar Association	-	At different times
Phi Beta Kappa	-	1959 to date
Stanford Alumni Assn.	-	1959 to date
Natl. Mult. Schlerosis Assn.	Dir. & Treas., North California	1979 - 1981
Committee on Foreign Relations	-	1979 - 1981
World Affairs Council of N. Calif.	-	1974 - 1980
Management & Evaluation Commission	Chairman, 1981	1980 - 1981
California State Board of Education		
California Commission on Educational Finance	-	1977 - 1978
California Commission for Econ. Devel. Comm. on Intl. Trade & Foreign Investment	Chairman	1974

(Continued on separate sheet.)

Memberships:

Harvard Club of the Philippines	Director	1983 - 1984
Association for Corporate Growth	-	1980 - 1981
Alliance for American Innovation	Director	1980 - 1981
Marin Republican Council	Director	1979 - 1981

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Securities & Exchange Commission, Washington, Legal Clerk, Summer 1961
District Court of Appeal of Calif., San Francisco, Law Clerk, June 1963 - June 1964
Law Offices of John Bohn: San Francisco, Attorney, June 1964 - Nov. 1964
Guam, Attorney, Nov. 1964 - Sept. 1965
Walnut Creek, CA, Attorney, Sept. 1965 - Nov.196
Wells Fargo Bank: San Francisco, Banker, Nov. 1967 - Sept. 1968
Tokyo, V.P., Sept. 1968 - Feb. 1972
Los Angeles, Div. Mgr., June 1972 - August 1974
San Francisco, Div. Mgr., August 1974 - Oct. 1981
U.S. Depts. of State and Treasury, Manila, Philippines, Ambassador to the Asian Development Bank, Oct. 1981 to Present.

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Chairman, Management and Evaluation Commission, California State Board of Education; Member, California Commission on Educational Finance, 1977-78; California Commission for Economic Development, Committee on International Trade and Foreign Investment, Chairman, 1974; Special Assistant to the Secretary of the Treasury, 1981 to Present; U.S. Ambassador to the Asian Development Bank, 1981 to Present.

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Washington Post supplement, May 1983 -- "U.S. Interests in Asian Development Bank".

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Director, Marin Republican Council, 1979 - 1981; Assoc. member, Marin Republican Central Committee, 1980-1981.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Not applicable; moving positions within Govt. service.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Qualifications: Educated at Stanford, London School of Economics, Harvard Law School, with additional work at Graduate School of Credit and Financial Management, Stanford; practice of Law included work in several Asian countries, Guam and the Trust Territories, and work with several government agencies; 13 years of commercial banking devoted primarily to international work. Served 4½ years in Japan as Far East Representative of Commercial Bank, with business throughout Asia; managed Commercial Banking Division responsible for Bank activities in trade finance, export finance, Canada, and Mexico. Served in legislative policy and country risk evaluation capacities.

Served as consultant to the Secretary of the Treasury in analysis of U.S. interests in multilateral banks. Most recently, serving in capacity of U.S. Ambassador and Executive Director, Asian Development Bank, Manila, Philippines.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

Retain interest in Wells Fargo Bank Incentive Savings Plan from previous employment.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

Discussions with Congress and staff concerning Asian Development Bank funding.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

No conflicts.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

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